

The Effect of Deferred Tax Expenses, Profitability, Leverage and Company Size on Profit Management in Automotive Sector Companies on the Indonesia Stock Exchange

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Abstract

This study aims to analyze the effect of deferred tax expense, profitability, leverage and company size on earnings management in automotive sector companies on the Indonesia Stock Exchange. The sample for this study used automotive companies that were registered on the Indonesia Stock Exchange for 2017 – 2021. The sampling technique in this study used a purposive sampling technique that met the criteria determined by the researchers according to the research objectives. The type of data in this study uses quantitative data types and data sources in this study use secondary data sources. Secondary data related to this research uses documentary data in the form of automotive company financial reports for the period 2017 – 2021 sourced from the Indonesia Stock Exchange (IDX). The results of testing the first hypothesis (H1) show that deferred tax expense has no effect on earnings management. The results of testing the second hypothesis (H2) show that profitability has an effect on earnings management. The results of testing the third hypothesis (H3) show that leverage has an effect on earnings management. The results of testing the fourth hypothesis (H4) show that firm size has no effect on earnings management and the results of testing the fifth hypothesis (H5) indicate that deferred tax expense, profitability, leverage and company size have an effect on Earnings Management. The data obtained is in the form of financial reports from automotive companies listed on the Indonesia Stock Exchange website at www.idx.co.id and the period used in this study is 5 years in 2017-2021. This research is expected to be a reference for companies related to earnings management, companies can pay more attention to how to analyze the company and know the good and bad conditions of the company so that it can reflect good work performance for stakeholders. This Paper is Original Research paper

Keywords:

Company Size And Earnings Management, Deferred Tax Expense, Profitability, Leverage

1. Introduction

According to Hidayat & Batubara (2016) in Astuti et al., (2017) defines earnings management as an intervention carried out intentionally by management in the process of determining profits, and is usually carried out for personal purposes. Earnings management occurs when managers use judgment in a company's financial statements and prepare transactions. To change the financial statements and they expect to benefit from these actions. This act is categorized as fraud because it is consciously carried out by company managers so that stakeholders who want to know about the company's economic condition are deceived by obtaining false information. Thus, earnings management is an intentional action taken by management by increasing (decreasing) profits which can reduce the credibility of financial reports so that it misleads stakeholders in assessing company performance and affects contract outcomes that depend on reported accounting numbers. There are several factors that can influence managers to carry out earnings management, namely Deferred Tax Expenses, Profitability, Leverage and company size.

This research also contains GAP Research where there are contradictory results such as research from Puji Lestari (2018) which says that deferred tax expense has an effect on earnings management in contrast to research from Pullah et al., (2021) which says that deferred tax expense has no effect on management profit. Puji Lestari (2018), which says that profitability has an effect on earnings management, is different from research from Husni & Idayu (2022), which says that profitability has no effect on earnings management. Astuti, et al (2017), which says that leverage has an effect on earnings management, is different from research from Oktaviani & Setiawati (2022), which says that leverage has no effect on earnings management. Arthawan & Wirasedana (2018) who say that company size has an effect on earnings management is different from research from Astuti et al., (2017) which says that company size has no effect on earnings management.

1.1. Agency Theory

Agency theory according to Jensen & Meckling (1976), is a contract under one or more involving agents to carry out some services for them by delegating decision-making authority to agents. The link between agency theory and earnings management is that there is a conflict of interest that occurs between the principal and the agent. Where the principal in this case is the owner of the capital while the agent is the company's management. The contract that exists between the principal and the agent allows them to prioritize each other's interests. It is assumed that agents are trying hard to get the maximum profit for the interests of the company regardless of whether the actions they take are in accordance with applicable standards or not. With the differences in interests and information between agents and principals that spur agents to think about how the resulting accounting nominal can maximize their interests. Agents do this by influencing the nominal accounting by manipulating earnings or earnings management when presenting their financial statements.

1.2. Earnings Management

Earnings management is a management action that can affect reported earnings figures. According to Abbas et al. (2019:62) earnings management is an action that is deliberately carried out by management in influencing reported profits by playing accounting policies so that the companies involved get certain benefits. So that it can be concluded that earnings management is an action in managing profits for a specific purpose desired by management or certain parties. In this study, earnings management is measured using discretionary accruals (DA) from the Modified Jones Model because this model is considered the best model for detecting earnings management. The modified Jones model uses the residual accrual regression of total sales and PPE (Property, Plant, and Equipment) where income is adjusted for changes in receivables that occurred in the period concerned.

1.3. Deferred Tax Expense

According to Puji Lestari (2018) deferred tax expense is the amount of income tax payable or recoverable in the coming year as a result of temporary differences that may be deducted from the remaining compensation for losses that can be compensated for. Tax is imposed and calculated based on tax provisions, while accounting profit is calculated according to the rules in accounting standards. The difference between the two is generally accepted in almost all tax regulations in various countries. Although the location of these differences is actually relatively general and the same, they have different ways of setting it up. Differences that arise, for example, are related to the calculation of depreciation, arrangements for some expenses and income which according to tax are recognized on a cash basis, arrangements for income which according to tax are regulated by special provisions and arrangements for some expenses which according to tax are not allowed as a deduction from taxable income. These differences can be classified into temporary and permanent differences. However, when viewed from the final impact, it can be classified into positive or negative differences. A positive difference occurs when accounting profit is greater than tax profit and vice versa. Differences that contain the consequences of recognizing deferred tax according to accounting are temporary differences.

1.4. Profitability

Users of financial statements in making decisions will see the quality of financial reports. Decision making by users of financial statements is assessed from the extent to which the company's performance can achieve its organizational goals, namely obtaining the desired profit. The ability that is carried out by the company to get profits as well as existing sources is called profitability. The main measure of the company's performance appraisal which indicates the success of the company's goals that have been achieved in terms of profitability. Profitability is the ratio used to measure a company's ability to generate profits from its normal business activities. The purpose of using this profitability ratio can also determine the company's ability to generate profits, namely to measure the effectiveness and efficiency of management in carrying out company operations Hery (2015:192).

1.5. Leverage

According to Astuti et al., (2017) Leverage is measuring how much a company is financed with debt. The use of debt that is too high will endanger the company because the company will be included in the extreme leverage category, namely the company is trapped in a high level of debt and it is difficult to release the debt burden. Because of that, the company should have to balance how much debt is worth taking and what sources can be used to pay debts.

1.6. Company Size

According to Astuti et al., (2017) Company size is classifying a company into forms, large companies and small companies. Company size is a scale in which the size of the company can be classified according to various ways, including by total assets.

1.7. Research Framework

The following will explain the research framework, namely:

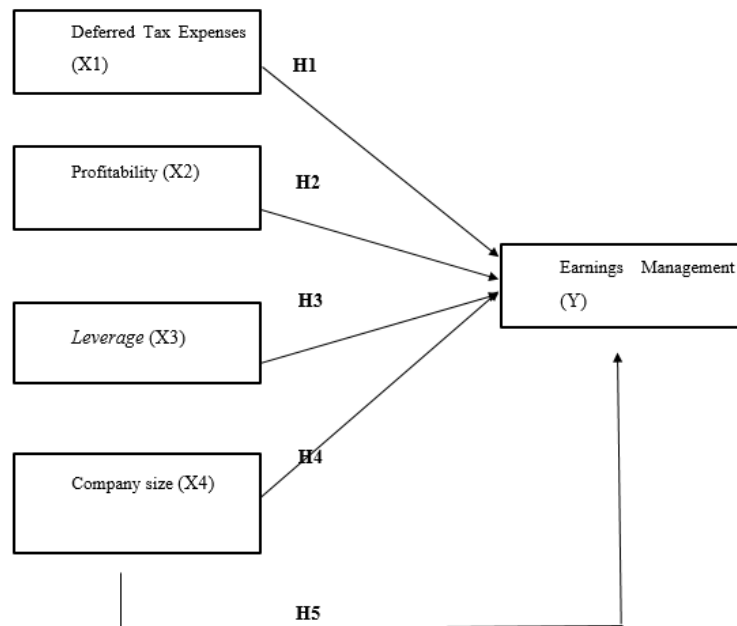


Figure 1. Research Framework

From the model above, the research hypothesis is arranged as follows :

H1: Deferred Tax Expenses Affect Profit Management

H2: Profitability Affects Earnings Management

H3: Leverage affects Earnings Management

H4: Company size has an effect on Earnings Management

H5 : Deferred tax expense, profitability, leverage and company size on Earnings Management

2. Methodology

2.1. Types Of Research

This type of research uses quantitative methods. According to Paramita et al., (2021:5) Quantitative research refers to the philosophical views of positivism. The philosophy of positivism views that phenomena in research can be classified, relatively fixed, concrete, observable, measurable, and the relationship of symptoms is causal.

According to Paramita et al., (2021:59) Population is a combination of all elements in the form of events, things or people who have similar characteristics which are the center of attention of a researcher because they are seen as a universe of research. The population of this study is an automotive company that is registered on the Indonesia Stock Exchange by accessing the website of the Indonesia Stock Exchange, namely www.idx.co.id

According to Paramita et al., (2021:60) The sample is a subset of the population, consisting of several members of the population. This subset was chosen because in many cases it is not possible for researchers to study the entire population. The sample for this study uses automotive companies that are listed on the Indonesia Stock Exchange in 2017 – 2021.

The sampling technique in this study used a purposive sampling technique that met the criteria determined by the researcher according to the research objectives. With the following criteria:

1. Automotive companies listed on the Indonesia Stock Exchange (IDX) for the period 2017 – 2021.
2. Automotive companies that publish complete financial reports for the period 2017 – 2021
3. Automotive companies that present their financial statements in rupiah for the period 2017 – 2021.

2.2. Data Types and Sources

The type of data in this study uses quantitative data types and data sources in this study use secondary data sources. Secondary data is data related to the problem under study but the data obtained is not directly, namely through intermediaries. Secondary data related to this research uses documentary data in the form of automotive company financial reports for the 2017 – 2021 period sourced from the Indonesia Stock Exchange (IDX) which can be accessed through the official website www.idx.co.id.

2.3. Variable Operational Definition

The variables in this study consist of independent variables and dependent variables. The variables involved in this study include:

2.3.1. Dependent Variable

1. Earning Management

According to Hidayat & Batubara (2016:238) in Astuti et al., (2017) defines earnings management as an intervention carried out intentionally by management in the process of determining profits, and is usually carried out for personal purposes. Earnings management occurs when managers use judgment in a company's financial statements and prepare transactions. To change the financial statements and they expect to benefit from these actions. This act is categorized as fraud because it is consciously carried out by company managers so that stakeholders who want to know about the company's economic condition are deceived by obtaining false information. Thus, earnings management is an intentional action taken by management by increasing (decreasing) profits which can reduce the credibility of financial reports so that it misleads stakeholders in assessing company performance and affects contract outcomes that depend on reported accounting numbers. Earnings management can be measured using discretionary accruals in the Modified Jones Model as the basis for calculations because this model is considered better than other models. The Modified Jones Model calculation steps are formulated as follows:

- a. Calculate total accruals with the following equation: $TA_{it} = NI_{it} - CFO_{it}$
- b. The Total Accrual (TA) value is estimated by the multiple linear regression equation as follows: $TA_{it} / A_{it-1} = a_1 (1/A_{it-1}) + a_2 (\Delta Rev_{it} / A_{it-1}) + a_3 (PPE_{it} / A_{it-1}) + \epsilon_{it}$
- c. From the regression equation above, NDA can be calculated by re-entering the coefficients α : $NDA_{it} = \alpha_1 (1/A_{it-1}) + \alpha_2 (\Delta Rev_{it} / A_{it-1} - \Delta Rec_{it} / A_{it-1}) + \alpha_3 (PPE_{it} / A_{it-1}) + \epsilon_{it}$
- d. The final stage is calculating DA which is part of the total accruals that cannot be explained by the company's normal activities, resulting in the following equation: $DA_{it} = TA_{it} - NDA_{it}$

Information:

TA_{it}	: Total accruals of company i in year t
NI_{it}	: Net profit of company i in year t
CFO_{it}	: Cash from company i operations in year t
A_{it-1}	: Total assets of company i in year t-1
ΔRev_{it}	: Revenue of company i in year t minus revenue in year t-1
ΔRec_{it}	: Receivables of company i in year t minus receivables in year t-1
PPE_{it}	: Fixed assets of company i in year t
ϵ_{it}	: Error term of company i in year t

2. Independent Variable

a. Deferred Tax Expenses

According to Puji Lestari (2018) deferred tax expense is the amount of income tax payable or recoverable in the coming year as a result of temporary differences that may be deducted from the remaining compensation for losses that can be compensated for. The following formula is used:

$$\text{Deferred Tax Expense} = \frac{\text{Deferred Tax Expense}}{\text{Total Assets}}$$

b. Profitability

According to Kasmir (2018) in Husni & Idayu (2022) The profitability ratio is a ratio for assessing a company's ability to make a profit. This ratio also provides a measure of the effectiveness of a company's management. This is demonstrated by the profit generated from sales and investment income. The point is the use of this ratio shows the efficiency of the company. Profitability can be measured using Return On Assets (ROA) because ROA shows the company's ability to generate profits from the assets used.

$$ROA = \frac{\text{Total Debt}}{\text{Total Equity}}$$

c. Company Size

According to Astuti et al., (2017) Company size is classifying a company into forms, large companies and small companies. Company size is a scale in which the size of the company can be classified according to various ways, including by total assets. The following formula is used:

$$\text{Company Size} = \ln (\text{Total Assets})$$

3. Result and Discussion

3.1. Descriptive statistics

Descriptive statistics can provide an overview or description in a data obtained from the average value (mean), standard deviation, variance, maximum and minimum (Ghozali, 2016).

Table 1. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Profit management	47	-.08	.40	.0562	.08667
Deferred Tax Burden	47	.00	.02	.0025	.00314
Profitability	47	-.05	.72	.0693	.12105
Leverage	47	.07	3.75	.9551	.91502
Company Size	47	26.31	33.54	29.5928	1.91425
Valid N (listwise)	47				

Based on the statistical descriptive table, it can be described that earnings management obtained a sample size of 47 and obtained the lowest value of -0.08 and the highest value of 0.40 with an average value of 0.0562 and a standard deviation of 0.08667.

For the deferred tax expense variable, the number of samples is 47 and the lowest value is 0.00 and the highest value is 0.02 with an average value of 0.0025 and a standard deviation of 0.00314.

For the profitability variable, the number of samples is 47 and the lowest value is -0.05 and the highest value is 0.72 with an average value of 0.0693 and a standard deviation of 0.12105.

For the leverage variable, the number of samples is 47 and the lowest value is 0.07 and the highest value is 3.75 with an average value of 0.9551 and a standard deviation of 0.91502.

For the company size variable, the number of samples is 47 and the lowest value is 26.31 and the highest value is 33.54 with an average value of 29.5928 and a standard deviation of 1.91425.

3.2. Significant test (F test / Simultaneous test)

The F test (Simultaneous Test) is to test how the independent variables jointly influence the dependent variable. In testing the hypothesis, the first step that must be taken by researchers is to know the basis for making decisions in the F Test (simultaneous). There are methods used in the basis of decision making, namely as follows:

1. If the Significance value (Sig.), < 0.05 then there is a joint effect of the independent variable (X) on the dependent variable (Y). Hypothesis accepted.
2. If the Significance value (Sig.), > 0.05 then there is no joint effect of the independent variable (X) on the dependent variable (Y). The hypothesis is rejected.

 Table 2. Anova^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	.168	4	.042	9.886	.000 ^b
Residual	.178	42	.004		
Total	.346	46			

Deferred tax expense, profitability, leverage and company size to Profit Management. The simultaneous test results (Test F) have a significance value of 0.000 so that it is less than 0.05 (5%) ($0.000 < 0.05$) thus indicating that simultaneously deferred tax expense, profitability, leverage and firm size affect earnings management.

3.3. Significant test (t test / Partial test)

According to Astuti et al., (2017) Partial test (t test) is carried out to find out whether the independent variables partially have an influence on the dependent variable. This test is carried out by determining the significant level (α) which is 5%.

Table 3. Multiple Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
Deferred Tax Burden	1.938	3.209	.070	.604	.549	.908	1.101
Profitability	.551	.088	.769	6.250	.000	.810	1.235
Leverage	.027	.012	.280	2.231	.031	.778	1.286
Company size	.007	.006	.144	1.178	.245	.817	1.224

Based on table 3 the results of the t test on the independent variables can be explained in detail as follows:

1. Deferred Tax Expense on Profit Management

The deferred tax expense variable has a significance value of 0.549 so that it is more than 0.05 (5%) ($0.549 > 0.05$) indicating that partially the deferred tax expense variable has no effect on earnings management. The higher the figure for the company's deferred tax expense, the higher the company's burden in the coming period.

This certainly does not benefit the company, because the greater the burden affects the achievement of company profits. This indicates that the company does not want the number of deferred tax expense recognized by the company to increase, besides that the deferred tax expense recognized by the company does not influence management to practice earnings management, while the deferred tax expense will only increase the amount of the company's burden because it has an effect on declining profits. These results are consistent with research by Pullah et al.,(2021) which says that deferred tax expense has no effect on earnings management, these results are also in contrast to research by Puji Lestari (2018) which says that deferred tax expense has an effect on earnings management.

2. Profitability Against Earnings Management

The profitability variable has a significance value of 0.000 so it is less than 0.05 (5%) ($0.00 < 0.05$) thus indicating that partially the profitability variable influences earnings management. Profitability as measured by Return on Assets (ROA) is able to reflect business profits and represent company effectiveness which reflects management performance in utilizing total assets to generate profits desired by the company. The link between profitability and earnings management is that companies that have a higher ROA tend to carry out earnings management because management knows the company's ability to earn profits in the future so that it makes it easier to delay or accelerate profits in certain periods. These results are consistent with research by Puji Lestari (2018) which says that profitability has an effect on earnings management, these results are also contrary to the research by Husni & Idayu (2022) which say that profitability has no effect on earnings management.

3. Leverage on Earnings Management

The leverage variable has a significance value of 0.031 so that it is less than 0.05 (5%) ($0.031 < 0.05$) thus indicating that partially the leverage variable has an effect on earnings management. Increasing debt will lead to increased earnings management practices. Companies that have high debt levels tend to do earnings management. The greater the leverage indicates that the greater the level of dependence of the company on external parties (creditors) and the greater the burden of debt costs (interest costs) that must be paid by the company. Management will make policies that can increase revenue, for example to improve its bargaining position when negotiating debt or to obtain funds from creditors or investors. These results are consistent with research by Astuti et al., (2017) which says that leverage has an effect on earnings management, these results are also in contrast to research by Oktaviani & Setiawati (2022) which say that leverage has no effect on earnings management.

4. Firm Size to Earnings Management

The firm size variable has a significance value of 0.245 so that it is more than 0.05 (5%) ($0.245 > 0.05$) thus indicating that partially the firm size variable has no effect on earnings management. Large or small companies have no influence on earnings management practices. Because the company prioritizes the image and reputation of the company it manages so that the company's reputation will always be good in the eyes of investors so that the company will report finances to investors according to existing conditions so that the company will always be trusted by investors and can increase the funding that investors will invest that can be used in the development of operational activities in the company. These results are consistent with research by Astuti et al., (2017) which says that company size has no effect on earnings management, these results are also in contrast to research by Arthawan & Wirasedana (2018) which say that company size has an effect on earnings management.

4. Conclusion

1. The Results Of Testing The First Hypothesis (H1) Show That Deferred Tax Expense Has No Effect On Earnings Management.
2. The Results Of Testing The Second Hypothesis (H2) Show That Profitability Affects Earnings Management
3. The Results Of Testing The Third Hypothesis (H3) Show That Leverage Affects Earnings Management
4. The Results Of Testing The Fourth Hypothesis (H4) Show That Company Size Has No Effect On Earnings Management
5. The Results Of Testing The Fifth Hypothesis (H5) Show That Deferred Tax Expense, Profitability, Leverage And Company Size Have An Effect On Profit Management

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